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**PUBLIC SERVICE
COMMISSION**

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
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Frankfort, Kentucky 40601

**Louisville Gas and
Electric Company**
State Regulation and Rates
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August 21, 2006

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Dear Ms. O'Donnell:

Please find attached, for the Commission's approval, an original and four copies of a special contract between Louisville Gas and Electric Company ("LG&E") and The Kroger Company #763 ("Kroger") to supply service to a retail grocery store at 520 North 35th Street, Louisville, Kentucky. The purpose of the special contract is to permit billing of power delivered at this location under LG&E's Small Time-of-Day Service ("STOD") electric rate schedule.

The STOD rate schedule was approved by the Commission as an optional three-year pilot program in LG&E's last rate case, Case No. 2003-00433, as a condition of the Settlement Agreement, dated May 12, 2004, in that case. Exhibit 2, Page 2 of 6, in the Settlement Agreement provides, "The Companies will request authority from the Commission to offer experimental time-of-day rate schedules for commercial customers whose maximum monthly demands were greater than 250 KW and less than 2,000 KW during the calendar year 2003 on a revenue-neutral basis. The experimental time-of-day rate schedules will be available to 100 accounts currently served under Rate LC by LG&E, and to 100 accounts currently served under Rate LP by KU." Similarly, pursuant to the Availability of Service portion of the STOD rate schedule (First Revision of Original Sheet No. 62, P.S.C. of Ky. Electric No. 6), "STOD shall be available as an optional pilot program for three years effective 14 weeks following the Final Order in PSC Case No. 2003-00433 for existing customers on Rate LC, Original Sheet No 15, PSC of Ky Electric No 6."

Although participation levels in the STOD pilot remain within the 100 account restriction, this particular Kroger store was not an LG&E customer served under Rate Schedule LC during calendar year 2003, as stipulated by the Settlement Agreement, nor was Kroger an existing Rate Schedule LC customer as of June 30, 2004, as required by the tariff. As a result, Kroger does not technically qualify for participation

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in the STOD pilot and has been denied service under STOD as have other applicants for the same reason. Kroger is currently served under LG&E's LC rate schedule.

However, Kroger has requested service from LG&E under the STOD rate schedule in conjunction with the installation and testing of a geothermal condensing system. The geothermal system will use groundwater for both heating and cooling purposes, displacing the store's existing HVAC system as well as all or part of Kroger's medium temperature refrigeration system. Preliminary estimates suggest this system could significantly reduce both the store's peak and total energy (electric and gas) consumption. Kroger states that this location is best suited for the test because of the suitability of its current energy systems and the store's location over the Louisville Aquifer. Further, Kroger has stated the STOD rate structure is needed to generate the needed savings to justify the project.

LG&E is supportive of reasonable efforts, such as the one proposed by Kroger, to reduce system demands and otherwise promote energy conservation in Kentucky. However, LG&E has advised Kroger of the risk that the STOD rate schedule may not exist as presently designed or even be continued beyond the three year pilot period which expires in October, 2007. Since Kroger is willing to assume the financial risk of investment in this system which may be dependent on an experimental rate schedule, LG&E is willing to endorse the Kroger effort. In that the need for a special contract is only required because of the rate schedule limitation on availability, LG&E respectfully requests that the Commission approve the Kroger/LG&E contract effective as of the first billing period following the Commission's order.

Sincerely,



F. Howard Bush

cc: Ray Dalton
Manager of Engineering
The Kroger Company
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